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SMSF NEWSLETTER

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SPECIAL POINTS OF INTEREST:

1. **Impending Social Security changes could reduce your entitlements**
2. **How the ATO will deal with excess concessional contributions for the 2014 income year**

INSIDE THIS ISSUE:

NEW SOCIAL SECURITY CHANGES

New Social Security changes applying from 1 January 2015 will modify how account-based pensions (including transition to retirement pensions) are counted for means testing purposes. These changes may reduce your entitlement to certain Social Security payments, such as the Age Pension.

Overview – means testing for Social Security

Social Security entitlements are subject to means testing to ensure the payments are appropriately targeted.

Under these means testing rules, you generally only qualify for certain income support payments if you are below the thresholds of both the 'income test' **and** the 'assets test'. Your actual benefit payment is the lowest of the two tests.

Currently, if you receive an account-based pension, your pension income is calculated concessionally for the purposes of the 'income test'. However, this concession will be removed from 1 January 2015.

INFO–Your SMSF can start paying you a 'pension' once you meet a 'condition of release'. If you are at least 55 and satisfy the 'retirement' condition of release, you can start the traditional 'account-based pension'. Alternatively, if you are at least 55 and still working, you could commence the 'transition to retirement pension'.

Change from 1 January 2015

Account-based pensions (including transition to retirement pensions) started from 1 January 2015 will be subject to 'deeming rules' for the purposes of the 'income test'.

Under the 'deeming rules', your financial assets are **deemed** to earn a certain level of income, regardless of the income **actually** earned by your investment. For example, if you have money sitting in a bank account earning no interest, under the deeming rules, the deposit is assumed to earn a set rate of interest. From 1 July 2014, these deeming rates are as follows:

- **Single** – $0 to $48,000 attracts a deeming rate of 2% (3.5% applies to the excess above $48,000).
- **Couple** (assuming at least one member of the couple receives a pension) – $0 to $79,600 attracts a deeming rate of 2% (3.5% applies to the excess above $79,600).

WARNING–Other recent changes may also affect your Social Security entitlements. This article only considers the deeming rule changes for account-based pensions.

EXAMPLE–Simon is currently single with a $10,000 bank deposit and an account-based pension of $180,000 started after 31 December 2014 (i.e., total financial investments for Centrelink purposes of $190,000). In determining eligibility for certain Social Security entitlements under the income test, his investments are deemed to earn $5,930, calculated as follows:

Item	Description
First $48,000	$48,000 x 2% = $960
Remainder	$142,000 x 3.5% = $4,970
Deemed income	$5,930

Will I be affected?

Generally speaking, your account-based pension will **continue** to be concessionally treated under the income test from 1 January 2015 if you:

1. commenced your account-based pension **before** 1 January 2015;
2. were receiving a Social Security income support payment **before** 1 January 2015;
3. **continue to receive** your account-based pension from 1 January 2015 (i.e., the pension does not cease); and
4. **continue to receive** Social Security Income Support from 1 January 2015.

"From 1 July 2013, the Government introduced a new taxing regime for excess concessional contributions."

"The Government has also legislated a new interest charge to ensure that no timing advantage is received from paying tax later than taxpayers who have not exceeded the cap."

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ATO INFORMATION ON EXCESS CONTRIBUTIONS

Last financial year, the Government reformed the way that tax was calculated on any excess concessional contributions that you made. This article discusses how the ATO will be administering these new rules.

Refresher – new excess contributions rules

From 1 July 2013, the Government introduced a new taxing regime for excess concessional contributions. This now means that excess concessional contributions are assessable to you personally, and taxed at marginal tax rates applying to you as an individual.

Note, your fund still pays tax on all concessional contributions it receives (including excess concessional contributions). However, to ensure you are not double-taxed, as an individual, you generally receive a tax credit of 15% to reflect the tax paid by your fund.

The Government has also legislated a new interest charge to ensure that no timing advantage is received from paying tax later than taxpayers who have not exceeded the cap.

The mechanics of the new excess contributions rules

Excess concessional contributions often result from inadvertent errors. The new rules recognise that if the excess contributions had not been made (e.g., by your employer), you generally would have personally received the income and paid the tax on it.

Furthermore, you also have the choice of withdrawing the excess contributions from your fund. This basically places you in the same position as if the excess contributions had not been made in the first place.

Note, the ATO is responsible for managing the withdrawal process to ensure the system operates with integrity. On the flipside, it will offset withdrawn contributions against any tax debts you may have.

TIP–Broadly, any excess concessional contributions withdrawn from your fund will no longer count towards your non-concessional contributions cap.

EXAMPLE–Shani, aged 42, has excess concessional contributions of $10,000 for the 2014 income year. Under the new rules, the excess contributions will be included in Shani's assessable income. Shani pays tax on the excess contributions of $10,000 at marginal rates. She is also entitled to a non-refundable offset of $1,500 to reflect the tax paid by her fund.

Shani can withdraw up to 85% of her excess contributions (i.e., $8,500) from her fund. Note, any excess concessional contributions will be paid to the ATO first before being paid to Shani (less any tax debts she owes).

Understanding the paperwork requirements

The ATO will deal with the administrative process as follows:

1. **Assessment notice** – if you have excess concessional contributions for the 2014 income year, you will receive a notice of assessment from the ATO detailing your excess contributions. Note, you may receive an amended assessment if your initial assessment has already been issued.
2. **Release authority** – you will also receive a 'release authority' from the ATO allowing you to access up to 85% of your excess concessional contributions.
3. **Return forms to the ATO** – if you wish to withdraw some of your excess contributions, you need to complete the election form and return it to the ATO. You have 21 days to pay your tax and take up the option to withdraw the contributions.
4. **ATO communicates with your superannuation fund** – upon receiving your election, the ATO issues your fund with a release authority, giving it 7 days to pay up to 85% of the excess concessional contributions to the ATO.
5. **ATO pays the excess contributions to you** – once received, the ATO will then pay the released contributions to you (less any tax debts you owe).